

Message Text

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ACTION EA-09

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E.O. 11652: NA
TAGS: BEXP PP
SUBJ: NIDA OFFICIAL REPORTS BREAKOFF OF P&W TALKS ON
VANIMO TIMBER PROJECT

REF: PORT MORESBY 208, PORT MORESBY 263

1. NATIONAL INVESTMENT AND DEVELOPMENT AUTHORITY (NIDA)
OFFICIAL INVOLVED IN PARSONS AND WHITTEMORE/GPNG NEGOTIATIONS
ON VANIMO TIMBER PROJECT TOLD EMBOFF THAT NIDA HAD DECIDED
TO BREAKOFF NEGOTIATIONS SINCE DISCUSSIONS WERE STALEMATED.
ANTHONY WINTERBOTTOM ADDED THAT NIDA MISSION HEADED BY
HIMSELF WOULD LEAVE PORT MORESBY FOR U.S. FRIDAY, JULY 23.
THE ORIGINAL PURPOSE OF THE TRIP WAS TO DEVELOP INTEREST
AMONG U.S. INVESTORS FOR CEMENT PRODUCTION IN PNG, BUT NOW
MISSION WILL ALSO INCLUDE TALKS WITH MAJOR U.S. TIMBER
PRODUCERS AND PROCESSORS IN AN EFFORT TO REPLACE P&W AND
MOVE VANIMO TIMBER PROJECT FORWARD.

2. WINTERBOTTOM PASSED EMBASSY COPY OF LETTER FROM MINISTER
FOR LABOUR, COMMERCE AND INDUSTRY GAVERA REA TO PAPUA NEW
PULP COMPANY PTY LIMITED (THE COMPANY THROUGH WHICH
P&W WAS NEGOTIATING). THE LETTER IS DATED JUNE 24,
1976, AND ESSENTIALS FOLLOW:

3. "I WISH TO INFORM YOU THAT AFTER CONSIDERING OUR
EXTENSIVE CORRESPONDENCE WITH PARSONS & WHITTEMORE,
ESPECIALLY OVER THE PAST TWELVE MONTHS, AND FOLLOWING
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UPON THE RECENT VISIT OF SENIOR GOVERNMENT REPRESENT-

ATIVES TO NEW YORK TO TALK WITH THE COMPANY, WE HAVE REGRETTABLY AOME TO THE CONCLUSION THAT OUR DISCUSSIONS ON DEVELOPING THE PROJECT ALONG THE LINES PROPOSED BY PARSONS & WHITTEMORE ON YOUR BEHALF WILL NOT BE SUCCESSFUL.

4. "AS YOU ARE AWARE PARSONS & WHITTEMORE STATED THAT IT REQUIRED THE STATE OF PAPUA NEW GUINEA TO GUARANTEE UNCONDITIONALLY THE REPAYMENT OF PRINCIPAL AND INTEREST ON THE TOTAL LOAN FUNDS PORTION OF THE PROJECT. ON SEVERAL OCCASIONS, AND MOST RECENTLY IN MY LETTER TO P&W OF THE 10TH MARCH 1976, WE HAVE STATED THAT WE ARE UNWILLING AND UNABLE TO CARRY SUCH A MASSIVE FINANCIAL BURDEN. WE HAVE INFORMALLY PUT A NUMBER OF ALTERNATIVE SUGGESTIONS, INCLUDING THE POSSIBILITY OF A SEVERAL GUARANTEE OF A SMALL PROPORTION OF THE LOAN FUNDS, BUT THESE HAVE NOT MET WITH ANY SATISFACTORY RESPONSE FROM THE COMPANY. SO FAR AS WE ARE CONCERNED IT IS STILL INSISTING ON A GUARANTEE OF THE TOTAL LOAN FUNDS.

5. "THE GOVERNMENT IS UNDER CONTINUING PRESSURE TO DEVELOP THE VANIMO RESOURCE AND NOW PROPOSES TO OPEN UP DISCUSSIONS WITH OTHER POTENTIAL DEVELOPERS. THESE DISCUSSIONS MAY INVOLVE A DIFFERENT FORM OF DEVELOPMENT AND A DIFFERENT MAGNITUDE OF INVESTMENT.

6. "IN ADDITION TO THE OTHER COMPANIES WHO HAVE EXPRESSED INTEREST IN DEVELOPING VANIMO WE WOULD WELCOME DISCUSSIONS WITH YOUR COMPANY, WHOULD YOU HAVE A CONTINUING INTEREST IN THE PROJECT. I FEEL, HOWEVER, THAT A SIGNIFICENT CHANGE OF APPROACH TO THE DEVELOPMENT IS REQUIRED BEFORE FURTHER TIME AND EXPENSE CAN BE COMMITTED IN THE CONSIDERATION OF YOUR PRESENT PROPOSAL."

7. WINTERBOTTOM REITERATED THAT GPNG VERY MUCH DESIRES TO SEE A U.S. FIRM EXPLOIT THE VANIMO RESOURCE. ALTHOUGH HE ADMITS THAT THIS IS NOT THE BEST TIME TO ATTEMPT NEGOTIATIONS ON SUCH A MAJOR TIMBER PROJECT, HE SAID THERE ARE REAL PRESSURES WITHIN THE GOVERNMENT TO GO AHEAD. LIMITED OFFICIAL USE

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CONSEQUENTLY, HE WILL ENTERTAIN VIRTUALLY ANY SERIOUS OFFERS NO MATTER HOW LIMITED THEIR MAGNITUDE.

8. WINTERBOTTOM HAS MADE APPOINTMENTS WITH MOST MAJOR U.S. TIMBER PRODUCERS AND PROCESSORS AND HAS ASKED THAT USDOC ASSIST IN SETTING UP APPOINTMENTS. FIRMS AND TENTATIVE APPOINTMENT TIMES WILL BE SUBJECT OF SEPTTEL.

9. COMMENT: THIS IS CERTAINLY NOT THE FIRST TIME THESE NEGOTIATIONS HAVE BROKEN DOWN ALTHOUGH WINTER-BOTTOM IS PERSONALLY CONVINCED THAT P&W WILL NOT DEVIATE FROM ITS PRESENT POSITION -- ONE WHICH IS TOTALLY UNACCEPTABLE TO THE GPNG SIMPLY BECAUSE IT IS UNABLE TO MAKE THE KIND OF FINANCIAL COMMITMENT WHICH P&W BELIEVES NECESSARY. ONE OBVIOUS CONCLUSION OF THE BREAKDOWN IS THE FACT THAT THE GPNG IS NOW PREPARED TO CONSIDER A FAR LESS AMBITIOUS DEVELOPMENT SCHEME. IT RECOGNIZED THAT WITH THE MAGNITUDE OF THE PROJECT (AN ESTIMATED US\$350 MILLION TO DEVELOP 650,000 ACRES OF TROPICAL HARDWOOD TIMBER) PIECEMEAL DEVELOPMENT MAY BE NECESSARY. THUS IF P&W HAS EVEN A MARGINAL INTEREST IN PARTICIPATING IN THE DEVELOPMENT THERE STILL APPEARS TO BE AN OPPORTUNITY ON THIS REDUCED SCALE. END COMMENT.

10. EMBASSY WOULD BE INTERESTED IN RECEIVING DEPARTMENT'S ASSESSMENT OF POSSIBLE FUTURE P&W PARTICIPATION IN SMALLER SCALE PROJECT AFTER DISCUSSION OF GPNG TURNDOWN WITH APPROPRIATE COMPANY OFFICIALS. IF P&W WOULD LIKE TO DISCUSS SITUATION FURTHER WITH WINTERBOTTOM WHILE HE IS IN U.S., PLEASE ADVISE SOONEST.
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